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THE SOCIAL BENEFITS OF INDUSTRIAL DEVELOPMENT BANKING: THE EXPERIENCE OF INDIA[1]

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1/ The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO. This document has not been formally edited.

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Though development banking in India is practically as old as India's independence, there are certain unique features both regarding the problems of Indian economy and regarding development banking in the country. India became independent in 1947, and the first development bank in the country, namely Industrial Finance Corporation of India, was established in the public sector in 1948. This shows what great importance the country had assigned to the need for industrialization, and the important role the development banks have to play in bringing about industrialisation, at the time of the birth of independent India.

India had its unique characteristics then and these continue even today. India is the second largest nation of the world with its population of around 607 million in 1976. Some of its states have populations which far exceed the population of several developed as well as developing countries. It is also unique among the member countries of United Nations in terms of its diversity in socio-economic characteristics, culture, religion, languages and geographic features. While the size, density and resource endowments do give some advantage to it, they also generate problems peculiar to a nation of these dimensions. Its dynamism creates its own new problems during growth, policies have to be adapted to changing circumstances, and a continuous process of new experiments and adaptation goes on in the economy.

Apart from its size, India had a fairly good industrial base, in absolute terms, on the eve of independence. Cotton and jute textiles industries had well developed long before India became independent, thanks to her comparative advantage. Cement, sugar, steel, matches, glass and several light engineering industries were also developed during the inter-war period. After the Second World War several new industries such as diesel engines, pumps, bicycles, sewing machines, soda ash, caustic soda and pharmaceuticals had come up. But these industries emerged mainly in response to inflationary conditions and scarcities following the war. Quick profits was the guiding motive, and the criteria of optimal location, most desirable scale of operation, the choice of optimal technology, etc. were hardly paid the attention they truly deserve. Though the industrial structure India inherited at the time of independence may look in absolute terms fairly diversified and impressive, it was very insignificant in relation to the size of the country's population. The achievement, in fact, was quite deceptive looked in light of the mammoth future task before the country. The contribution of factory establishments in national income in

1948-49 was only 6.6 per cent and the share of labour force working in these establishments was only 1.8 per cent of the working population in the country. Agriculture was still the predominant activity. Also the goods produced by industry were mainly consumer goods whereas with the deposits of iron ore, the potential comparative advantage the country had in the manufacturing of steel, its human skill and the size of the domestic market, there seemed to be considerable scope for developing a strong capital goods sector to support the overall industrial development on a sustained basis. Viewed in this perspective, the level of industrialization was low, there were distinct gaps in the structure of industries, there was a paramount need for applying efficiency criteria a little more rigorously and above all more conscious efforts and planning were called for to accelerate the pace of industrialization in the country. It was in response to these felt needs that the Industrial Finance Corporation was established in 1948, and after consolidating and improving the statistical system, the first Five Year Plan was launched in 1951-52. The basic objectives and broad outline of industrial policy followed since independence are briefly described below:

Economic objectives and Industrial Policy since Independence

The industrial policy of the country is announced and modified through industrial policy resolutions and statements on this policy from time to time. Basically it aims at securing the objectives as stated in the preamble of the Constitution of India. In its Directive Principles of State Policy *inter alia* it is stated that:

> "The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life."

Further that:

> "The State shall, in particular, direct its policy towards securing -
>
> (a) that the citizens, men and women equally, have the right to an adequate means of livelihood;
>
> (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;
>
> (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."

Industrial Policy is one of the policy instruments through which these social objects are planned to be achieved. The salient features of the

present industrial policy are that there are certain broad production areas such as atomic energy, mineral oils, aircraft, railway transport, shipbuilding and iron and steel which are reserved for development exclusively in the public sector. At the other extreme about 200 items for production where economies of scale are not a paramount consideration, are reserved for exclusive development in the small-scale sector. This list is periodically revised and augmented from time to time. In between, there is what may be called a residual sector covering all other categories of goods for industrial production. The residual sector is divided into 'core' sector and non-core sector. The relatively larger industrial houses - and we have a listing of such houses - and foreign companies are free to produce any of the items listed in the core sector and are also allowed to enter and produce goods in the non-core sector provided the proposed unit is export oriented. The list of industries under the core sector is revised from time to time. While the inter-temporal development of various industries is broadly determined by the strategy of planning as laid down by the Planning Commission and also the market forces, the licensing of such industries, the emerging ownership pattern of capital and the geographical distribution of benefits of industrial development are basically determined by the industrial licensing authority, i.e. Government of India, which gives license to a particular party, and the financial institutions in the country, which extend financial assistance to particular industrial units.

Structure of Financial Institutions in India

The need for specialized financial institutions to meet the requirements of term finance of industry in the country was recognized as early as 1931. It was also realized that such institutions be established both at all-India level and State level. But the first all-India financial institution, namely, Industrial Finance Corporation (IFCI), was established in the public sector in 1948. Starting modestly in 1948, IFCI's operations have grown in size and in complexity and have kept up pace with the growth of industry in the country. The IFCI is giving preference to sugar and textiles projects - especially in the co-operative sector - which offer large employment potential and also canalize the savings of the agricultural sector for productive purposes. Net approvals by the IFCI to units in these sectors have been one-third of total approvals as on June-end, 1976, both in terms of number and amount.

The establishment of financial institutions in the individual States was considered almost simultaneously and the first such corporation was

started in the State of Tamilnadu in 1949. The State Financial Corporations Act was passed in 1951 and became effective from August 1, 1952. Since then, in addition to Tamilnadu Industrial Investment Corporation, 17 more state financial corporations have been set up with the main objective of providing loan and underwriting assistance to units coming up in the small scale sector and units coming up in the smaller of the medium sector (i.e. to projects with paid up capital and reserves of less than Rs. 10 million). The maximum assistance in the form of loan and underwriting that an SFC can give to an individual project is Rs. 3 million.

Since then new corporations in this large sized country have been set up in response to the diverse requirements of industry in consonance with the socio-economic objectives of the country. The Industrial Credit and Investment Corporation of India, a private sector and today the only private sector financial institution in the country, was set up in 1955. It was expected to pay special attention to the foreign currency loan requirements and underwriting requirements of the industry.

The next all-India institution to come up in the field of industrial finance was the Refinance Corporation for Industry Limited. It was set up in 1958 by the Reserve Bank of India, LIC and some leading commercial banks with a view to providing refinance to commercial banks and subsequently to state financial corporations for their medium-term loans to medium-sized borrowers in the private sector. Its resources mainly came from the rupee fund under the P.L.480 Agreement between the Governments of India and United States of America. Later it was merged with the Industrial Development Bank of India (IDBI), the apex development bank of the country.

The IDBI, unlike other all-India institutions, provides finance to industry under various schemes of finance. It provides finance directly to medium and large sized industry mainly on a consortium basis with other all-India financial institutions, it provides refinance assistance to state financial institutions, state industrial investment corporations and commercial banks, for on-lending to small and smaller of the medium industrial units, it operates an almost automatic hire-purchase scheme for purchasing indigenously manufactured machinery, called Bills Rediscounting Scheme, and it also provides term loan assistance for exports of capital goods on deferred payment basis. The IDBI also provides assistance for the foreign currency requirements of units assisted by the SFCs through its refinance scheme, the source being a World Bank line of credit. In addition, the IDBI

subscribes to the share capital and bonds and debentures of other financial institutions thereby augmenting their resources. There are still more schemes of IDBI to which reference shall be made at a later stage.

In addition to these institutions, the Unit Trust of India (UTI, established in 1964), Life Insurance Corporation of India and the General Insurance Corporation of India also to a certain extent meet financial requirements of the industrial sector. They work very closely with other all-India financial institutions and provide finance on a consortium basis. The commercial banks also extend term finance to industry to a certain extent but have invariably responded to the request of financial institutions when providing finance to relatively large sized industrial projects.

The latest all-India institution to be set up was the Industrial Reconstruction Corporation of India Limited in 1971 with the main objective of rehabilitation of sick industrial units.

This, in very brief, outlines the structure of financial institutions serving industry in the country. The brochure on development banking brought out by the IDBI, and the brochure on financial institutions in India compiled by the India Investment Centre provide considerable information on the working of these institutions. In addition, it should be noted that there are financial institutions meeting the medium- and long-term requirements of agriculture. The apex institution in the field of agriculture is the Agricultural Refinance and Development Corporation which basically works through the medium of land mortgage banks and state co-operative banks at State level. But the subject here being industrial finance, the attention is confined to the impact the financial institutions in the industrial sector have been able to bring about in the industrial scene of the country both quantitatively as well as in qualitative terms.

It is quite common, and certainly more appropriate, to refer to the financial institutions in the developing countries as development banks, implying that their task goes far beyond the conventional function of providing term capital to qualifying entrepreneurs and mobilizing resources for their lending operations. In developed countries, particularly in Germany and Japan, the bank did play an active, and at times, even aggressive role in accelerating the growth process by providing merchant banking services and meeting the term capital requirements of entrepreneurs. But then the developed countries in their nascent stage of growth were acting with much fewer constraints than the developing countries of today. These were the days when international trade was acting as an engine of

growth, problems of marketing and availability of raw materials were less pressing, and relatively speaking, there was no dearth of entrepreneurs. Active support from government in creating supporting infrastructure and ready response of the financial institutions further smoothed the process of growth.

While development banks, financial intermediaries as they are, cannot be an engine of growth, they can surely act as growth-inducing sector in the desirable directions. The main objective of developed countries in their earlier stage of growth was growth per se and this was well served by the banks. In developing countries of today, particularly in India, there is considerable emphasis on redistribution of income and of productive assets, social justice, self reliance, prevention of concentration of economic power, regionally-balanced growth and promotion of a class of new and technician entrepreneurs. Economic growth with more or less simultaneous and just distribution of its benefits is the primary objective. In an economy where the resources are scarce, it requires not only investment of all available investible resources, but a certain qualitative composition and geographical distribution of them. The resultant output-mix also has to be consistent with the accepted social objectives.

The development banks have to adapt their lending strategy and activities toward realization of these objectives. Their lending has to be far more purposeful. It is quite a complex task to work toward simultaneous achievement of a fine blend of what may sometimes turn out to be conflicting objectives. And given the time horizon within which so much is intended to be achieved, it is very much doubtful whether, in past, so much was ever expected from the development banks. But we in India do. This has made the task of development banks quite a challenging one in India.

The social objectives of the country have to be turned into performance areas and within the territory of their statutes, the development banks have to define their objectives in a manner so as to serve these social objectives. Translated into blueprint for action, criteria for the allocation of assistance, they define priorities for assistance by the development banks. Today the priority areas in the country are:

(i) Projects coming up in the backward regions;
(ii) Projects coming up in the small-scale sector;
(iii) Projects promoted by new and technician entrepreneurs;

(iv) Projects producing goods of mass consumption;

(v) Projects in the nature of export promotion and import-substituting industrial units.

The above list is indicative and by no means in order of importance of a priority. In addition to these, what may be called long-term priorities, the development banks have also to work with short-term priorities by adapting their lending strategy to changing circumstances so as not to create inflationary conditions, or idle capacity in certain sectors where critical raw materials or utilities are not available, or not to create situation of shortages or gluts of certain commodities at some future dates. The flow of demand and supply has to be regulated so as not to create an imbalance between the two and the financial institutions can play an important role here. This is very essential because projects are indivisible, are profitable only at certain level of capacity utilization, and therefore, production can increase only in spurts. Every attempt, therefore, has to be made to regulate supply (and subsequent claims on raw materials) by phasing out assistance, and if necessary, by curtailing assistance to certain sectors for a short time.

This needs elaboration in some greater detail. The main instrument of working of development banks is finance: to raise and disburse this scarce resource in the economy. Finance, truly speaking, is not a resource but a numeraire in which all other resources are expressed. But it has its own strength as well as weakness. Mere creation of finance without corresponding creation of goods and services within a reasonable time could be inflationary. A development bank just cannot be merely a lending agency. It has to take into account the strength of finance in the sense that it could command all resources and exploit this strength to the maximum benefit of the nation. The manner in which finance is disbursed to projects very much determines the claims of assisted units on scarce resources such as power, fuel and transport. By following an appropriate location policy while assisting projects, it could help determine the geographical dispersal of industries and facilitate reduction in regional imbalances by creation of incomes and employment in the relatively backward regions of the country. And depending on the kind of entrepreneurs it assists it could also determine the emergence of pattern of ownership of means of production. Thus even within the framework of its traditional lending activities there is considerable scope for a development bank in optimizing the use of scarce resources, in achieving a socially desirable product-mix, in bringing about industrialization in hitherto backward regions, in preventing concentration of economic power and in

promoting the growth of small, new and technician entrepreneurs in the country. But the reorientation of attitudes and conscious efforts on the part of development banks are highly necessary.

Even with the best of intentions and change in attitudes, it is found that viable projects in the socially desirable sectors are not forthcoming. Entrepreneurship is a very scarce factor in the country. And whatever new entrepreneurs that are located, generally prefer to be at a safer place where economies of conglomeration are available - i.e. in developed regions. The development banks cannot wait for the socially most desired projects to come. Waiting has its own social cost. Nor can they fritter away their assistance to basically doubtful or socially less desirable projects. There is no guarantee that left to itself, there will be an autonomous increase in the supply of socially desirable and beneficial projects. While the willingness to lend is there, there are no right kinds of projects or entrepreneurs. The supply of right projects and entrepreneurs, therefore, has to be induced and, if necessary, at some cost to the nation. In an economy where all savings are invested, this may have to be achieved by diversion of resources from one kind of investment to another, with the sole objective of improving the quality-content of aggregate investment.

To give some quantitative idea of achievements in the industrial sector, the share of industrial production in the factory sector in net domestic product has gone up from 6.6 per cent in 1948-49 to about 11 per cent in 1974-75. National income during this period has grown, on an average, by about 3.5 per cent per annum, whereas industrial production has increased by about 6 per cent, and that of engineering industries by about 9.5 per cent. India today produces a wide range of goods, some of them quite sophisticated in their technology. India manufactures aircraft, ships, locomotives of all kinds, trucks, cars, industrial machinery and sophisticated electronic items of several kinds. This shows the slow but certain structural transformation taking place in the economy. Industrial growth is an outcome of joint endeavours of several agencies in the country and it would be presumptious to give credit for the growth to one or two agencies. The significant role of the financial institutions, however, has to be appreciated first, for extending assistance to the industrial units and secondly - and this should be regarded as a far more important contribution - for educating and convincing the investing community that all aspects of investment proposal must be clearly examined in the form of a project report before taking an investment decision. This is a very significant contribution of the

development banks. Today hardly a new project comes up in the economy without assistance from one of the development banks in the country and most of the promoters will agree that the searching questions put up by the staff of the development banks have helped them to improve their investment proposals.

Despite this growth, the share of exports in national income in exports has remained more or less constant. Today exports form about 6 per cent of national income, rather a small percentage compared to other developing countries but quite consistent with its size, and resource endowments, both natural and human. It has a large domestic market with a basic tendency for the economy to become self-sufficient. The industrial structure that is emerging in India, therefore, cannot necessarily be agro-based and trade-based. If at all, the share of agro-based industries has been slowly declining in total industrial production. The three major agro-based industries, namely, cotton textiles, jute textiles and sugar, as was mentioned earlier, were well developed even before independence. The annual rate of growth of cotton yarn (mills sector) between 1951 and 1975 has been only 2.1 per cent, of cotton textiles (mills sector) only 0.3 per cent, and of jute textiles only 0.6 per cent. The rate of growth of cotton textiles in the unorganized handloom sector is higher. The annual rate of growth of production of sugar during this period was 5.3 per cent. During this period chemicals and chemical products, petroleum products, non-electrical and electrical machinery, and electricity generation have recorded a more than 10 per cent annual rate of growth. Even though the share of the above three agro-based industries has been slowly declining, their weightage in the index of industrial production (base 1970) was still significantly high at 21 per cent. (It was 27 in the index with base 1960 and 48 ((including unorganized sector)) in the index with base 1951.) But the trend is obvious. Cotton textiles and sugar are items of mass consumption in a country like ours and their consumption and production need to be stepped up considerably. Today these industries are given high priority and conscious efforts are made to modernize the existing units so as to achieve higher production out of existing capacity with modernization of their equipment. Though the structural change is taking place in the economy in favour of non-traditional industries, and a large part of assistance of the financial institutions has gone to what we customarily refer to as non-traditional sectors, it should be noticed that the IFCI, the oldest of the financial institutions, has been quite active in financing sugar, cotton and jute textiles. Nearly one-third of its

assistance so far has gone to these three sectors. ICICI and IDBI who normally provide assistance to non-traditional industries and to core sector projects have also been lately active in assisting these sectors. The largest single beneficiary of the IDBI's assistance so far has been the textile industry for its modernization and expansion programmes. Even though, consistent with the changing structure of industries, a large part of assistance may go to non-traditional industries, these goods of mass consumption will continue to get special attention from the financial institutions they have been getting so far.

Promotion of small-scale enterprises, of industrial units in the relatively backward regions of the country, and deliberate attempts at creating a class of new entrepreneurs are an integral part of our strategy for generation of additional employment and redistribution of income and assets in favour of hitherto unprivileged class and weaker sections of society.

Small-scale industries have a potential for achieving these goals at a relatively smaller capital cost in fields where the economies of scale are not overriding consideration for deciding the optimal size of the unit. They are also likely to be less inflationary to the extent that construction and production lags are smaller than in the case of larger enterprises. According to some estimates a fixed investment of Rs. 1 million provided employment to about 160 persons in small-scale industries compared to less than 25 in the case of larger enterprises. Inclusive of imputed wages to self-employed workers, the share of wages in total value added works out to about 61 per cent.

With a view to accelerating the growth of small enterprises, the Government of India, as mentioned earlier, has reserved a large number of items for exclusive production in the small-scale sector. The Central Government, and State Governments, as well as financial institutions, offer various concessions to promote the growth of this sector. The assistance sanctioned to small-scale units in the last six years by SFCs has increased from Rs. 202 million in 1969-70 to Rs. 918 million in 1975-76. The share of sanction to small-scale industries and small road transport operators in the total sanction of project assistance by IDBI has increased from less than 1 per cent in 1964-65 to about 5 per cent in 1968-69 and 23 per cent in 1975-76. Production in the small-scale sector, particularly in the last few years when the production has been slack in the large-scale sector, has increased at quite a rapid rate in the economy.

Small-scale units, by their very nature, are on a priori consideration expected to have certain disadvantages such as less efficient technology, higher risk and less capability to withstand rough weather in difficult times, and higher administrative cost of lending and monitoring from the point of view of financial institutions. They need a supporting institutional infra-structure to help them face and tide over these problems. In India we have at State level small-scale industries corporations which help the small units in procurement of raw materials and also in marketing of their products. They also operate hire-purchase schemes for the purchase of the machinery for small-scale units. The Small Industries Service Institutes help the small units in their problems relating to technology and technical problems arising during the operations. The IDBI in association with other all-India financial institutions and commercial banks have started technical consultancy organisations in some of the States - basically in the backward States - to help promoters at all stages of the project cycle. To encourage improvement in the quality of products, the IDBI has introduced a scheme of concession in interest rate to those units which obtain Indian Standard Institute's - ISI - mark on their products. The ISI will assist the small units by advising them what additional equipment they need for improving the quality of their products and the IDBI has agreed to provide 100 per cent refinance for the purchase of such equipment.

Active promotion of industries in relatively backward regions is still another way in which Government is endeavouring to bring about a better distribution of benefits of growth. Backwardness is not a unique problem to India. Other countries have been facing this problem, even the developed ones. But the dimensions of the problem in India are very large, given the widely prevalent subsistence level of living in the country, and large distances between relatively more developed and less developed regions in the country.

It may be appropriate here to recall the Singer-Prebisch thesis which attempts to explain how international trade in the nineteenth century has led to uneven distribution of gains of trade between today's developed and developing countries to the disadvantage of the latter. It has been a controversial thesis not because of the non-existence of the phenomenon it is trying to explain, but because of the explanations given for the occurence of the phenomenon. Everyone may not agree with it but what is more important in the present context is that a similar pattern should not be repeated today, particularly in the large-sized developing countries where

there are relatively developed as well as backward regions and where there is more or less free trade and free mobility of factors of production between them. The developed regions have the advantages of economies of conglomeration and attract entrepreneurs and resources. In the process there is a strong possibility that they may drain some of the relatively more backward regions of their valuable resources. This could happen and eventually result in imbalanced regional growth giving rise to distinct pockets of relative opulence and poverty.

In India regionally well-balanced growth has all along been one of the objectives of planning. Not much was achieved in terms of this objective during the first 3 five-year plans. The objective was defined without an appropriate and sufficiently effective policy framework. It was hence felt that bolder and more deliberate and co-ordinated efforts were necessary for initiating a process of growth in backward regions which eventually should become a self-sustaining one.

In 1968, at the time of the formulation of the Fourth Plan, the Planning Commission constituted two working groups, one to recommend criteria for the identification of backward areas and the other to suggest fiscal and financial incentives for establishing industrial units in the backward regions. On the basis of recommendations of these groups and on some additional criteria the Planning Commission today has classified about 240 districts and regions as specified backward regions for concessional assistance from the financial institutions.

The financial institutions introduced in 1970 schemes of concessional assistance to projects coming up in the backward regions. The concessions are in the form of lower interest rate, longer amortisation period, reduction in the underwriting commission and in commitment charges on the undrawn balance, etc. The IDBI has also extended similar concessions on its refinance assistance. In addition to this the Central Government provides an outright grant of subsidy in selected districts. The subsidy is at the rate of 15 per cent of the project cost with a maximum of Rs. 1.5 million and is given irrespective of the project cost. The State governments also provide further financial concessions to projects coming up in the backward regions.

The financial incentives and the subsidies on their own cannot be expected to direct the natural economic forces and projects to backward regions. Finance is not the only determinant, perhaps not the principle determinant of industrial investment in any region. The factors which

influence an investment decision are many such as availability of infrastructure facilities, communications, physical resources, existence of entrepreneurial and managerial capabilities, demand, growth-inducive environments, and a host of other socio-cultural factors shaping attitudes of people toward achievement and industrialization. Realizing that financial incentives are not adequate and that something more has to be done in the developmental sphere, the financial institutions simultaneously launched upon what may be basically called non-financial developmental activities to prepare a sound information base that would help evolve a location - specific strategy in each State.

Not much information was available either on demand or on growth potential of these regions, let alone on the extent and causes of backwardness. The backward areas differ from each other in their degree of backwardness as well as in their development potential. The first important task was to assess the industrial growth potential of backward regions in the country. The financial institutions have by now conducted industrial potential surveys of all backward regions except the State of Sikkim (which joined the Indian Union in April 1976) and have identified several project ideas in the light of the resource endowments, likely demand and available infrastructure facilities. As a result of these surveys project ideas aggregating an investment of about Rs. 28,000 million have been identified. Of these 74 projects with capital investment of about Rs. 2,850 million have already taken shape or are under construction. Many of these project ideas, however, have to be discussed, further screened and sharpened before they could be transformed into actual investment. On finalization of survey reports of each backward State, the report is intensively discussed with the State-level institutions and authorities.

To keep a continuous follow-up of these project ideas and for closely involving the State-level institutions in this task, the Industrial Development Bank of India in association with other all-India financial institutions has constituted Inter-Institutional Groups (IIG) at State level where the State-level financial and promotional institutions and prominent commercial banks in the State are represented. There are 17 such groups practically covering the whole of the country. They meet periodically and discuss a broad range of issues pertaining to the industrialization of State such as project identification, identification and training of entrepreneurs, project financing and so on. The IDBI's role is to feed them with new ideas, collect and disseminate experiences of one IIG to other IIGs.

From the experience of working with new project ideas and with small entrepreneurs, we feel that there was a distinct gap in the services made available to the small and relatively inexperienced entrepreneurs. They needed help - technical and professional assistance - in formulating a good project scheme and in following it up with the financial institutions for getting financial assistance. A man with ideas needed technical assistance from the stage of project conception to project formulation and project implementation. The other professional consultants are expensive and sometimes even not available to a project coming up in a remote backward region. With a view to filling this gap, the IDBI in association with other financial institutions has started technical consultancy organizations in seven States in the country.

All these schemes have their own performance lags. But in terms of achievements, year after year, the assistance going to backward regions has been continuously rising since 1970 when the schemes of assistance were first introduced. During 1975-76 (April-March) total assistance sanctioned by the all-India financial institutions to projects coming up in the backward regions was Rs. 1,807 million and constituted about one-third of their total assistance. An idea of the rapid growth of assistance to projects in backward areas may be obtained from the fact that during 6 years (1964-1970, July-June), the IDBI had sanctioned assistance of Rs. 470 million to units coming up in backward regions, constituting about 17 per cent of its total assistance during this period. This has grown to sanctioning of Rs. 2,009 million to backward regions constituting about 49 per cent of its assistance sanctioned during 1975-76 (July-June).

The developmental role of the IDBI has been given a fresh reorientation after its restructuring in February 1976. A separate department, namely the Regional and Backward Area Development Department, has been created with the main purpose of project identification, project promotion and performing associated developmental activities for the backward regions.

It is very difficult to precisely quantify the impact of this assistance on the backward regions. It is rather too early to evaluate the developmental impact of this assistance as the real momentum has come since 1970, and most of the projects have yet to start production. But on the basis of some projects which have already gone into production, the direct assistance given by all-India financial institutions has resulted in employment creation of more than 100,000 in the industrial sector in the backward regions.

One may or may not agree with Kuznet's historical finding that the economic development and inequality in the distribution of resultant incomes are positively correlated in the early phase of economic development. But it appears certain that, left to market forces, there is no inevitable tendency for income distribution to become more egalitarian or all regions to participate equitably in the benefits of growth. The growth process has to be guided in a certain direction, it has in a way to be 'induced' among certain regions and through a certain section of entrepreneurial class if the entrepreneurial base has to be widened. The entrepreneur is a key factor of production in economic development and unless there are entrepreneurs willing to work within the framework of socio-economic objectives, development cannot take place at the pace it is called for. Even in the nineteenth century whatever development took place in developing countries a large part of it was thanks to the efforts of foreign entrepreneurs. His guiding motive was profits and diversion of these profits to the metropolitan centre and hence no lasting development could take place in what are today's developing countries.

Realizing that no lasting development can take place unless entrepreneurship is encouraged, that the best way of distributing benefits of growth is to encourage wider dispersal of ownership of productive assets, and that the only way of promoting a sustained process of growth in the relatively backward regions of the country is to ensure ploughback of profits made in these regions, the financial institutions have evolved schemes to encourage very actively new entrepreneurs and technician entrepreneurs. To ensure industrial development of backward regions on a continuous basis, practically each State has established a state industrial investment corporation (the exact nomenclature differs from State to State) whose main job is to extend equity capital and loans to projects coming up in the backward regions, and also to sponsor projects themselves in collaboration with some private entrepreneurs, called 'joint sector' projects in India. As the SIIC is co-sponsor of the project there is very good assurance that the profits made on the projects will be ploughed back for the benefit of other projects coming up in the backward regions of the State. The all-India financial institutions extend directly assistance to viable joint sector projects co-sponsored by the SIIC. In addition, the IDBI also extends refinance assistance to SIIC against their loans to medium-sized industrial units.

All financial institutions in the country have been providing assistance on concessional terms to technician entrepreneurs who have the technical ability to run a project but lack finance to start their projects. Most of the commercial banks provide assistance up to 100 per cent with the maximum assistance of Rs. 0.2 million. The norms relating to promoters' contribution

are relaxed in the case of these entrepreneurs by the State-level financial institutions as well as the all-India financial institutions. Some of the financial institutions also prepare feasibility studies at their own expense, and bear the expenditure of training these technicians in entrepreneurial training programmes.

Quite often, however, it is found that the financial incentives and related training inputs are not enough to draw out potential entrepreneurs from their secure shells of well-paid jobs. The basic quality of an entrepreneur is risk-taking, and to take the consequences if failure comes his way. The new and potential entrepreneur requires 'risk capital', i.e. assistance in the form of equity by the financial institutions so that his risk is minimized. The financial institutions, therefore, have evolved what we call "seed capital" schemes to provide assistance in the form of equity capital to new entrepreneurs. The IDBI operates two such schemes: one through the state financial corporation where assistance is provided to bridge the gap between what a promoter can actually bring and what is normally expected from him. The assistance is on very soft terms. The maximum assistance given under this scheme is Rs. 0.1 million. The other scheme of IDBI is operated through the state industrial investment corporations where the minimum assistance is Rs. 0.1 million, the maximum assistance is Rs. 1.0 million and is given only to projects with the project cost up to Rs. 10 million. The Industrial Finance Corporation of India has also sponsored an institution called the Risk Capital Foundation which provides seed capital in the form of interest-free personal loan to entrepreneurs where the project cost is more than Rs. 10 million. Thus all three schemes are envisaged as complementary schemes and can provide assistance on very soft terms. At State level the institutions are quite active in locating potential entrepreneurs and running specialized entrepreneurial development programmes for the benefit of these persons.

The financial institutions have also recognized that the quality of their professional staff and the quality of professional management need to be continuously upgraded and sharpened if the flow of better-conceived projects were to increase, appraisal standards of projects were to improve and the management of industry professionalised. Realizing the important need of training and research in the field of financial management, the ICICI has promoted the Institute for Financial Management and Research in Madras, and the IFCI has sponsored the Management Development Institute in New Delhi for this purpose. They have devised training programmes suited to

the particular requirements of Indian financial institutions and Indian industry. Their programmes have also been found quite educative and well appreciated by participants from other developing countries.

These are in the nature of infrastructure activities for developing that crucial factor in economic development, namely the human factor. The gains will be spread over a long period of time and even then they are not easily quantifiable. Gestation lags of all such activities are long, particularly when the efforts are made for an 'induced' pattern of growth. If at all, the costs are immediate and an impatient mind whose time horizon for maximizing benefits is short may be somewhat skeptical of this continuous and painstaking search for new ways of augmenting and improving the quality of the human factor in production. We believe it is a worthwhile endeavour, particularly when the objective of redistribution is uppermost in the nation's mind.

The development of a country or any of its regions is a socio-economic phenomenon involving both economic and non-economic factors. Industrialization is only one aspect of growth. Development of agriculture is equally important if not more in the initial stages of growth. The objectives of the development banks have to be very delicately blended or else more growth may be at the expense of equity and vice versa. Moreover, realization of these objectives is always a joint endeavour where several other institutions are involved. It is very difficult to measure the contribution of any institution with any degree of precision. Several costs and benefits in the form of linkages and externalities are not easily quantifiable. But one thing is certain. The financial institutions are moving in the right direction, are working, at time erring, learning and always looking for new ways to better satisfy the nation's objectives.

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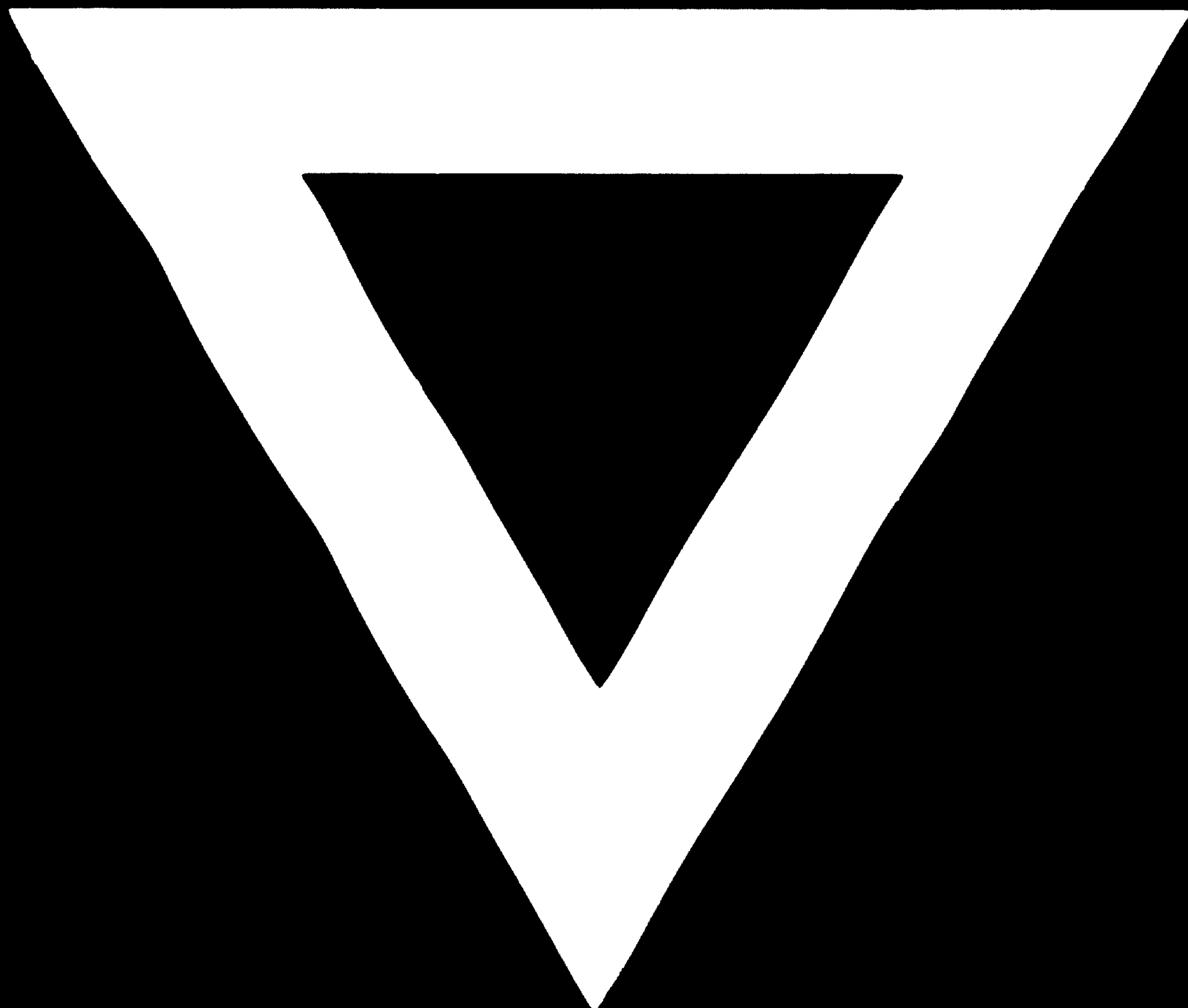

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